

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095  
DOCKET NO. E-7, SUB 1100  
DOCKET NO. G-9, SUB 682

In the Matter of )  
)  
Application of Duke Energy Corporation )  
and Piedmont Natural Gas Company, Inc. to )  
Engage in a Business Combination )  
Transaction and Address Regulatory )  
Conditions and Code of Conduct )

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**TESTIMONY OF  
LYNN J. GOOD**

1   **Q.   PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

2   A.   Lynn J. Good, Duke Energy Corporation, and my business address is 550  
3       South Tryon Street, Charlotte, North Carolina.

4   **Q.   MS. GOOD, BY WHOM ARE YOU EMPLOYED AND IN WHAT**  
5       **CAPACITY?**

6   A.   I am Chairman, President, and Chief Executive Officer (“CEO”) of Duke  
7       Energy Corporation. Duke Energy Corporation (“Duke Energy”) is a utility  
8       holding company. Its primary subsidiaries are Duke Energy Carolinas, LLC  
9       (“DEC”) and Duke Energy Progress, LLC (“DEP”), which are both public  
10      utilities under the laws of the State of North Carolina and whose public utility  
11      operations in North Carolina are subject to the jurisdiction of this  
12      Commission, as well as Duke Energy Indiana, LLC, Duke Energy Kentucky,  
13      Inc., Duke Energy Ohio, Inc., and Duke Energy Florida, LLC. DEC services  
14      most of western North Carolina and northwestern South Carolina, and DEP  
15      services eastern North Carolina, the area in and around Asheville, North  
16      Carolina, and Northeastern South Carolina. I have held my position since  
17      2013.

18   **Q.   MS. GOOD, PLEASE DESCRIBE YOUR EDUCATIONAL AND**  
19       **OCCUPATIONAL BACKGROUND?**

20   A.   I have a Bachelor of Arts degree in Systems Analysis and Accounting from  
21       Miami University in Oxford, Ohio, and in 2010 I completed the MIT Reactor  
22       Technology Course for Utility Executives. I am a Certified Public Accountant  
23       (“CPA”) in the state of Ohio and a member of the Ohio Society of CPAs.

1           I joined Cinergy Corp. in 2003 as Vice President, Financial Project  
2           Strategy and Oversight, after more than two decades with the public  
3           accounting firms Arthur Anderson and Deloitte & Touche, LLP. Prior to my  
4           appointment as President and CEO of Duke Energy in 2013, I served in  
5           various capacities at Cinergy Corp. and then Duke Energy, including Vice  
6           President and Controller of Cinergy Corp., Vice President Finance and  
7           Controller of Cinergy Corp., Chief Financial Officer of Cinergy Corp., Senior  
8           Vice President and Treasurer for Duke Energy, Group Executive and  
9           President of Duke Energy's Commercial Businesses, and Chief Financial  
10          Officer of Duke Energy.

11          My current industry responsibilities include serving as a board  
12          member of the Edison Electric Institute, the Institute of Nuclear Power  
13          Operations, as well as on the executive committee of the Nuclear Energy  
14          Institute. I am also a member of the Business Council and the Business  
15          Roundtable, and I am a member of the Boeing board of directors and serve on  
16          its audit and finance committees. At a local civic level, I serve on the board of  
17          directors of the Bechtler Museum in Charlotte, North Carolina, and I also  
18          Chair and co-founded in 2015, with Mr. Tom Skains, Chairman, President,  
19          and CEO of Piedmont Natural Gas Company, Inc. ("Piedmont Natural Gas"  
20          or "Piedmont"), a leadership council comprised of various Charlotte, North  
21          Carolina CEOs to address various civic issues in our communities such as  
22          economic mobility and education.

1   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2       **PROCEEDING?**

3   A.   The purpose of my testimony is to provide information on the proposed  
4       merger between Duke Energy and Piedmont Natural Gas (“Merger”) and the  
5       Agreement and Plan of Merger (“Merger Agreement”), and explain why Duke  
6       Energy’s Board of Directors has determined that this Merger with Piedmont  
7       Natural Gas is in the best interests of our customers, our investors, and the  
8       Carolinas, and why I concur in that determination.

9   **Q.   PLEASE DESCRIBE THE MERGER AGREEMENT ENTERED INTO**  
10       **BY DUKE ENERGY CORPORATION AND PIEDMONT NATURAL**  
11       **GAS.**

12   A.   On October 24, 2015, Duke Energy, Piedmont Natural Gas, and Forest  
13       Subsidiary, Inc. (“Merger Sub”), a Duke Energy merger subsidiary, entered  
14       into the Merger Agreement for the purchase price of \$4.9 billion, all cash. At  
15       closing, Duke Energy will acquire Piedmont Natural Gas by purchasing each  
16       share of its common stock (currently trading on the New York Stock  
17       Exchange under the symbol “PNY”) that is issued and outstanding  
18       immediately prior to the effective time of the Merger, which we refer to as the  
19       “effective time.” Piedmont common shareholders will receive \$60 in cash for  
20       each share of Piedmont stock that they own. Under the terms of the Merger  
21       Agreement, the Merger Sub will be merged with and into Piedmont Natural  
22       Gas. Although Piedmont will no longer be a publicly traded company, it will  
23       continue to exist as a wholly-owned direct subsidiary of Duke Energy.

1 Piedmont will retain its current name, corporate form and headquarters. The  
2 Merger consideration will be paid in cash, and, as a result, Piedmont Natural  
3 Gas shareholders will receive no equity interest in Duke Energy, and, after the  
4 effective time, will have no equity interest in Piedmont Natural Gas and will  
5 no longer have any interest in Piedmont's future earnings or growth.

6 **Q. HAS THE MERGER BEEN APPROVED BY BOTH DUKE ENERGY**  
7 **AND PIEDMONT NATURAL GAS?**

8 A. The respective boards of directors for Duke Energy and Piedmont  
9 unanimously approved the Merger on October 24, 2015. Approval by  
10 Piedmont's shareholders is required. Those shareholders have been solicited,  
11 and a shareholder meeting will take place on January 22, 2016.

12 **Q. WHAT FACTORS DID YOU CONSIDER IN MAKING YOUR**  
13 **DECISION AND RECOMMENDING TO DUKE ENERGY'S BOARD**  
14 **OF DIRECTORS THAT THE TWO COMPANIES SHOULD MERGE?**

15 A. Duke Energy considered the impact of the Merger on our ability to provide  
16 reliable, affordable electric and, now, natural gas service in the Carolinas to  
17 our respective customers in an environmentally responsible way, our ability to  
18 provide a fair, competitive return to our investors – in both the near term and  
19 the long term, and the greater impacts to the Carolinas of having two of the  
20 United States' premier electric utility and natural gas local distribution  
21 companies ("LDC") headquartered in the Carolinas. We also viewed this  
22 acquisition as a strategic transaction designed to secure our local supply

1 arrangements and to allow for potential expansion into natural gas markets in  
2 both Piedmont's current service territories and nationally.

3 Piedmont Natural Gas is a natural gas LDC that is supported by  
4 attractive regulatory jurisdictions, robust operational performance, superior  
5 customer service, and strong growth prospects. We have known and  
6 partnered with Piedmont over many years and have a great deal of respect for  
7 their management team, their employees, and their business. Acquiring  
8 Piedmont Natural Gas will strengthen Duke Energy in ways that make sense  
9 in the continually consolidating electric utility and natural gas LDC industries.

10 Duke Energy also considered the size and financial leveraging  
11 capabilities of a post-merger Duke Energy in a utility industry where natural  
12 gas is an increasingly pivotal factor in providing low-cost and reliable electric  
13 generation to the customers of investor-owned electric utilities. If the  
14 Commission approves this transaction, Duke Energy will serve approximately  
15 7.3 million electric customers and 1.5 million natural gas LDC customers after  
16 the close of the transaction. Piedmont also has ownership interests in various  
17 gas infrastructure businesses including inter- and intrastate natural gas  
18 transportation, an underground storage facility and a liquefied natural gas  
19 storage facility. These interests include a 10 percent ownership interest in the  
20 Atlantic Coast Pipeline, in which Piedmont and Duke Energy are part owners,  
21 and for which this Commission provided regulatory approvals in the fall of  
22 2014. These are all factors that Duke Energy considered when deciding to  
23 make an offer to merge with Piedmont.

1   **Q.   PLEASE DESCRIBE THE BENEFITS OF THE MERGER TO DUKE**  
2       **ENERGY'S STAKEHOLDERS AND CUSTOMERS.**

3   A.   Should the Commission approve this Merger application, Duke Energy would  
4       experience compelling strategic benefits that include a diversified energy  
5       company that will be well positioned to provide the highest quality service to  
6       our customers at just and reasonable rates. This transaction establishes a  
7       valuable natural gas infrastructure platform which will provide strong growth  
8       opportunities for years to come. Abundant, low-cost natural gas will continue  
9       as an increasingly important part of the nation's energy mix as the shift away  
10      from coal continues. Duke Energy has been a leader in the coal-to-gas  
11      transition during the last decade, and this acquisition further solidifies our  
12      leadership for the future.

13             Duke Energy currently operates six natural gas-fired combined cycle  
14      generation plants at five different generation facilities in North Carolina  
15      through DEC and DEP. These natural gas-fired plants represent an  
16      increasingly economical aspect of Duke Energy's diversified generation mix,  
17      and are essential to our continued delivery of cost-competitive and reliable  
18      electricity to our customers. In addition to the growing need for natural gas to  
19      fuel electric generation, Duke Energy believes that the direct use of natural  
20      gas will become an even more important energy source. This belief is based  
21      upon the current gas forecasts, the current direction of federal environmental  
22      regulations, and customers who will have more options when it comes to  
23      energy consumption. The Atlantic Coast Pipeline is an example of new,

1 significant natural gas infrastructure investment that is part of a growing  
2 national trend responding to ample regional natural gas supply. Through  
3 Duke Energy's strong balance sheet and electric generation expertise, and  
4 Piedmont's understanding of natural gas markets and proficiency in  
5 transportation and distribution, the combined Duke Energy and Piedmont will  
6 be well positioned for a future that may require additional natural gas  
7 infrastructure and services to meet the needs of our customers.

8 Another compelling reason for the Merger is that Piedmont Natural  
9 Gas provides firm transportation for the natural gas used in the generation of  
10 electricity for our customers to all six of those combined cycle generation  
11 plants in North Carolina. Therefore, the proposed Merger immediately  
12 demonstrates the unified strategy of the combined companies where Piedmont  
13 as a subsidiary will continue to facilitate the delivery of essential natural gas  
14 fuel to Duke Energy's electric generation requirements. In light of the  
15 competitive bid for Piedmont that is explained in great detail in the definitive  
16 merger notice and proxy statement on file with the United States Securities  
17 and Exchange Commission, coupled with the fact that Piedmont is, and will  
18 continue to be, a crucial part of our existing business here in the Carolinas, I  
19 am glad that Duke Energy and Piedmont, two companies headquartered in  
20 North Carolina, came together to make this Merger, pending this  
21 Commission's approval, a reality.

22 I also believe that the Merger would present compelling benefits to  
23 North Carolina, as well as to both Duke Energy's and Piedmont's customers



1 in the Carolinas. Both Duke Energy and Piedmont have a long history of  
2 service to our customers and support for the communities in which we  
3 operate. The acquisition of Piedmont's premier utility operations will  
4 improve these capabilities and enhance our ability to provide safe and reliable  
5 energy solutions to our customers. Additionally, Piedmont recently was  
6 named one of the 2015 Most Trusted Brands in the Utility Segment and  
7 moved up in the J.D. Power 2015 Gas Utility Residential Customer  
8 Satisfaction Study. Although there are unique operational characteristics to  
9 LDCs and investor-owned electric utilities that impact how they relate to and  
10 impact customers and customer service, the Merger presents opportunities for  
11 Piedmont and Duke Energy to share customer service best practices and focus  
12 on providing an effective and dependable service experience for our  
13 customers.

14 **Q. WHAT ARE DUKE ENERGY'S PLANS FOR POST-MERGER**  
15 **OPERATIONS OF PIEDMONT NATURAL GAS?**

16 A. For the most part, Piedmont's overall operational management team and  
17 operational philosophy will be unchanged, which will allow for the  
18 continuation and enhancement of the already excellent service that Piedmont  
19 provides to North Carolina customers. Duke Energy recognizes that Piedmont  
20 has served North Carolina for more than 60 years as an operating gas utility,  
21 and that the company has deep capabilities in a wide range of areas related to  
22 the natural gas industry. Upon closing of the Merger, Frank Yoho, who  
23 currently serves as Piedmont's Senior Vice President and Chief Commercial

1 Officer and is an existing member of Piedmont's senior management team,  
2 will manage Duke Energy's natural gas operations, which will consist of the  
3 LDC utilities and gas infrastructure investments across the Company,  
4 including Duke Energy's existing Midwest LDC operations. Mr. Yoho will  
5 report directly to me. Mr. Yoho's responsibilities will extend beyond day-to-  
6 day operations and will include key decisions such as long-term resource  
7 planning. The Carolinas and Tennessee gas LDC operations will continue to  
8 be run under the Piedmont Natural Gas brand, and the operations team will be  
9 based at Piedmont's current headquarters in Charlotte, North Carolina.

10 Additionally, under the terms of the Merger Agreement, upon closing,  
11 Duke Energy will add one Piedmont Natural Gas board member to the  
12 existing Duke Energy Board of Directors. The Duke Energy Board of  
13 Directors has designated Tom Skains to serve in that capacity.

14 **Q. WHAT ARE THE COMPANIES' STATED GOALS IN CONNECTION**  
15 **WITH THE MERGER?**

16 A. Both Duke Energy and Piedmont intend for the Merger to deliver sustainable  
17 benefits for the companies, our customers, the Carolinas, and our investors.  
18 Our post-Merger plans for Piedmont to exist as a separate entity and  
19 subsidiary of Duke Energy and maintain its separate headquarters in North  
20 Carolina demonstrates our acknowledgment and respect for the brand,  
21 operational excellence, and management expertise that Piedmont has built in  
22 the Carolinas over the past 60 years. We will leverage those strengths for the  
23 benefit of Piedmont's – and now Duke Energy's – customers, the

1 communities that both Duke Energy and Piedmont serve, and the Carolinas as  
2 a whole. Additionally, as part of the Merger planning process, we will  
3 evaluate how to use knowledge from both companies to optimize system  
4 reliability and efficiencies, customer service, support, and overall experience,  
5 and seek to identify high-level and duplicative utility governance and  
6 operations costs that we can minimize for the sake of our customers. Lastly,  
7 we commit that as a merged company, we will maintain the same  
8 philanthropic presence that both Duke Energy and Piedmont have individually  
9 become known for in the communities that we serve.

10 **Q. ARE THERE OTHER REGULATORY APPROVALS THAT DUKE**  
11 **ENERGY AND PIEDMONT NATURAL GAS MUST OBTAIN**  
12 **BEFORE THE MERGER CAN CLOSE?**

13 A. Yes. On December 21, 2015, the United States Federal Trade Commission  
14 granted early termination of the 30-day waiting period under the federal Hart-  
15 Scott-Rodino Antitrust Improvements Act with regard to the Merger. Also, in  
16 addition to needing approval from this Commission, of course, we are seeking  
17 clarification, through a December 2015 declaratory action, from the Kentucky  
18 Public Service Commission as to whether the relevant Kentucky statutes are  
19 applicable to this transaction, as it is our belief that they are not. Piedmont  
20 was also informed by the Tennessee Regulatory Authority that they would  
21 like for it to file a request for approval of a change in control over Piedmont in  
22 Tennessee, so Piedmont is pursuing that authorization. Additionally, on  
23 January 13, 2016, the Public Service Commission of South Carolina held an

1 Allowable Ex Parte Briefing on the proposed Merger. Lastly, as Piedmont  
2 witness Skains explains in his testimony, the transaction must be approved by  
3 Piedmont's shareholders, and a special meeting has been scheduled for  
4 January 22, 2016 for the purpose of taking a shareholder vote on the Merger.

5 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

6 **A.** Yes, it does.

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**TESTIMONY OF  
THOMAS E. SKAINS**

1    **Q.    PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

2    A.    My name is Thomas E. Skains. My business address is 4720 Piedmont Row  
3           Drive, Charlotte, North Carolina.

4    **Q.    MR. SKAINS, BY WHOM ARE YOU EMPLOYED AND IN WHAT**  
5           **CAPACITY?**

6    A.    I am Chairman, President, and Chief Executive Officer (“CEO”) of Piedmont  
7           Natural Gas Company, Inc. (“Piedmont Natural Gas,” or “Piedmont,” or the  
8           “Company”). Piedmont Natural Gas, which is a public utility under the laws of  
9           the State of North Carolina and whose public utility operations in North Carolina  
10          are subject to the jurisdiction of this Commission, is engaged in the business of  
11          transporting, distributing, and selling natural gas in the States of North Carolina,  
12          South Carolina, and Tennessee. I have held my current position since 2003.

13   **Q.    MR. SKAINS, PLEASE DESCRIBE YOUR EDUCATIONAL AND**  
14          **OCCUPATIONAL BACKGROUND.**

15   A.    I have a Bachelor of Business Administration degree from Sam Houston State  
16          University and a Doctorate of Jurisprudence degree from the University of  
17          Houston Law School. I am an inactive member of the State Bar of Texas.

18                I joined Piedmont Natural Gas in 1995, after nearly 15 years with  
19          Transcontinental Gas Pipe Line Corporation in Houston, Texas. Prior to my  
20          appointment as Chairman, President and CEO in 2003 and President and Chief  
21          Operating Officer in 2002, I served as Piedmont Natural Gas’ Senior Vice  
22          President - Marketing and Supply Services.

1           My current industry responsibilities at the national level include serving  
2           on the boards of the American Gas Association (Chairman in 2009) and the  
3           Southern Gas Association (Chairman in 2006), and the American Gas  
4           Foundation. I am a former board member of the Gas Technology Institute. At a  
5           local civic level, I served as the chairman of the Charlotte Chamber of  
6           Commerce in 2015 and continue to serve on the Chamber's board and executive  
7           committee. I am also the vice chairman of the Charlotte Sports Foundation and  
8           general chairman of the Belk Bowl. I previously served on the boards of the  
9           Charlotte Center City Partners, the United Way of Central Carolinas and as co-  
10          chair of the 2004 & 2005 American Heart Association Charlotte Metro Heart  
11          Walks, and the 2006 Charlotte-Mecklenburg Arts and Science Council Annual  
12          Fund Drive.

13   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
14   **PROCEEDING?**

15   A.   The purpose of my testimony is to provide information on the proposed merger  
16          between Duke Energy Corporation ("Duke Energy") and Piedmont Natural Gas  
17          ("Merger"), describe the Agreement and Plan of Merger ("Merger Agreement"),  
18          and to explain why Piedmont's Board of Directors found this Merger to be in the  
19          best interests of our shareholders and why I concur in that decision. I also  
20          address why I believe the proposed Merger is in the public interest.

1   **Q.   PLEASE DESCRIBE THE MERGER AGREEMENT ENTERED INTO**  
2       **BY DUKE ENERGY CORPORATION AND PIEDMONT NATURAL**  
3       **GAS COMPANY, INC.**

4   A.   On October 24, 2015, Piedmont entered into a Merger Agreement with Duke  
5       Energy pursuant to which, at closing, Piedmont will become a wholly-owned  
6       subsidiary of Duke Energy. A copy of the Merger Agreement is attached to the  
7       Application for Approval. Under the terms of the Merger Agreement, Piedmont  
8       will be merged into Forest Subsidiary, Inc. (“Merger Sub”), a Duke Energy  
9       merger subsidiary, and Piedmont Natural Gas will survive the Merger as a  
10      wholly-owned direct subsidiary of Duke Energy. Upon the consummation of the  
11      Merger, each share of Piedmont Natural Gas’ common stock (“Company  
12      Common Stock”) that is issued and outstanding immediately prior to the  
13      effective time of the Merger, which we refer to as the “effective time,” will be  
14      converted into the right to receive \$60.00 in cash. Upon payment of such  
15      compensation, existing Piedmont shareholders will no longer have any  
16      ownership interest in Piedmont.

17   **Q.   CAN YOU PLEASE EXPLAIN THE MERGER PROCESS AND WHAT**  
18      **LED UP TO THE MERGER AGREEMENT WITH DUKE ENERGY?**

19   A.   Yes. That process is explained in great detail in the definitive Merger notice and  
20      proxy statement on file with the SEC, but I would be happy to provide a brief  
21      summary for the Commission. Although I will provide a concise summary of  
22      the sequence of events set forth in the proxy, the Commission should rely on the



1 proxy statement as the definitive description of events leading up to the  
2 transaction.

3 On August 24, 2015 the Southern Company ("Southern") and AGL  
4 Resources, Inc. ("AGLR") announced that they had agreed to a merger  
5 transaction. This announcement was a significant industry event and as we  
6 analyzed it enhanced the possibility that Piedmont, which was not otherwise "on  
7 the market," could become an acquisition target of a large electric utility. Within  
8 days of the Southern/AGLR announcement, I was contacted by the CEOs of two  
9 companies who indicated a desire to engage in strategic discussions between  
10 their companies and Piedmont. One of these CEOs was Ms. Good, who asked to  
11 expand our discussion topics for a meeting previously scheduled for September  
12 3, 2015 to include industry developments and strategic matters. Although I  
13 informed both CEOs that Piedmont was committed to its standalone long-term  
14 strategic plan and was not soliciting offers for the Company, I also indicated that  
15 I would take any serious offers back to our Board for consideration. Discussions  
16 with Ms. Good and the other CEO, which occurred through a parallel series of  
17 telephone calls and meetings over the course of approximately two weeks,  
18 culminated in preliminary non-binding offers from Duke Energy and from the  
19 other company which I will refer to as Party A.

20 Based on the terms of the non-binding indications of interest and after  
21 receiving appropriate authorizations from our Board, Piedmont initiated a  
22 confidential and non-exclusive bid process with Duke Energy and Party A,  
23 which included management presentations to each party, a significant due

1 diligence process, and the preparation of a draft merger agreement. These  
2 processes and procedures culminated in the receipt of binding purchase offers  
3 from both Duke Energy and Party A on October 22, 2015 and ultimately resulted  
4 in the execution of the definitive Merger Agreement with Duke Energy that was  
5 approved by the Piedmont and Duke Energy Boards on October 24, 2015 and  
6 executed by the parties on October 24, 2015.

7 **Q. WHAT FACTORS DID PIEDMONT'S BOARD CONSIDER IN**  
8 **MAKING ITS DECISION TO MOVE FORWARD WITH A MERGER**  
9 **WITH DUKE ENERGY?**

10 A. In a situation like the one presented to Piedmont, where a suitor is offering an all  
11 cash deal with a significant premium, the Piedmont Board was highly  
12 constrained in its ability to base its decision on factors other than its fiduciary  
13 duty to serve the best economic interests of its shareholders, including  
14 transaction price and certainty of closing the deal. Having said that, Piedmont's  
15 Board was informed of a number of other relevant factors such as customer  
16 interests, the interests of the various states and communities in which Piedmont  
17 conducts business, the regulatory review process, and the interests of its  
18 employees. In this case, there was no perceived conflict between any of these  
19 various factors. Duke Energy was the clearly superior bidder in economic terms,  
20 and the analysis of the non-economic factors underlying the potential merger led  
21 to the conclusion that they either favored Duke Energy or were neutral as  
22 between Duke Energy and Party A. The discrete enumerated factors considered  
23 by Piedmont's Board are set out in the definitive proxy.

1   **Q.   DO YOU BELIEVE THAT THE PROPOSED MERGER IS IN THE**  
2       **BEST INTERESTS OF PIEDMONT’S SHAREHOLDERS?**

3   A.   Yes. The all-cash premium purchase price offered by Duke Energy is a  
4       compelling value proposition for Piedmont’s shareholders, far superior to the  
5       Company’s standalone long-term strategic plan and the bid of Party A.

6   **Q.   DO YOU HAVE AN OPINION AS TO THE “PUBLIC INTEREST”**  
7       **INHERENT IN THE PROPOSED MERGER TRANSACTION?**

8   A.   Yes. As I have indicated in a number of contexts since this transaction was  
9       announced, I believe that there are a number of potential benefits of the  
10      transaction to Piedmont, to its customers, and to the communities and states  
11      where Piedmont operates.

12  **Q.   COULD YOU ELABORATE ON THOSE BENEFITS?**

13  A.   Yes. First and foremost, my belief is that Duke Energy intends to operate  
14      Piedmont as a separate natural gas subsidiary and combine Duke Energy’s  
15      existing LDC operations and additional interstate joint venture investments,  
16      namely Duke Energy’s equity interest in the Atlantic Coast Pipeline and Sabal  
17      Trail Pipeline projects, under the leadership of Frank Yoho, who currently serves  
18      as Piedmont’s Senior Vice President and Chief Commercial Officer and who has  
19      been named by Ms. Good as head of Duke Energy/Piedmont’s combined natural  
20      gas operations upon the close of the Merger. This will preserve and expand the  
21      Piedmont name and “brand” and allow the Company to maintain and expand its  
22      high-performance/customer service focused culture in providing natural gas  
23      service to both existing and new customers.

1 I also believe that teaming with Duke Energy – the nation’s largest  
2 electric utility – will provide Piedmont with a larger natural gas platform and  
3 financial balance sheet, with increased opportunities to expand and grow its  
4 business for the benefit of its customers. It will also allow Duke Energy to  
5 participate in the significant and growing natural gas sector of the United States  
6 energy markets in a more effective and meaningful way and will result in  
7 efficiencies and enhanced electric-gas system reliability through the combination  
8 of natural gas and electric assets under a single corporate structure. I also  
9 believe that the proposed Merger will further Piedmont’s efforts to provide  
10 excellence in customer service through shared corporate best practices and  
11 technologies and will offer our employees greater employment opportunities for  
12 professional growth and development. Finally, the proposed Merger will create  
13 a combined utility whose headquarters will remain in Charlotte with a  
14 continuing commitment to all of the communities in which we operate.

15 **Q. DO YOU PERCEIVE ANY DETRIMENTS FROM THE PROPOSED**  
16 **TRANSACTION EITHER TO PIEDMONT’S CUSTOMERS OR TO**  
17 **ANY OTHER INTERESTED PARTY?**

18 A. I do not.

19 **Q. CAN YOU COMMENT ON THE IMPACT OF THE MERGER ON**  
20 **YOUR EMPLOYEES, ON PIEDMONT’S MANAGEMENT, AND ON**  
21 **YOU PERSONALLY?**

22 A. Although the future integration of post-Merger operations between Piedmont  
23 and Duke Energy, and Piedmont’s and Duke Energy’s existing gas operations

1 are more properly a subject for discussion by Duke Energy's witnesses and  
2 Piedmont witness Yoho, I would be happy to describe what I know about those  
3 matters. First, Duke Energy has consistently said that this Merger is strategic to  
4 them and is not based upon the creation of "synergies" – which is sometimes  
5 "code" for a merger based on cost cutting targets for the acquired company. The  
6 strategic nature of the Duke Energy acquisition of Piedmont is consistent with  
7 the idea that Duke Energy intends to use Piedmont as a platform for growth in  
8 the natural gas business, which will require continued management and  
9 operating personnel with significant gas industry experience. The terms of the  
10 Merger reflect this approach and include a commitment by Lynn Good to choose  
11 the next leader of Piedmont named above from its existing executive  
12 management team and to provide economic protections for current Piedmont  
13 employees. The Merger Agreement also provided for a mutually agreeable  
14 representative from Piedmont's Board to be placed on Duke Energy's Board of  
15 Directors.

16 **Q. DOES THIS MEAN THAT THERE WILL BE NO CHANGES TO**  
17 **PIEDMONT AS A RESULT OF THE MERGER?**

18 A. Again, I think that question is more appropriately addressed to Duke Energy's  
19 witnesses, but I would expect that some functions, particularly at the corporate  
20 headquarters level, could be consolidated over time as a matter of normal  
21 efficient business practices. Duke Energy is incented, like all regulated utilities,  
22 to run their business efficiently for the benefit of the customers they serve.

1    **Q.    WHAT WILL YOUR STATUS BE WITH THE COMBINED**  
2       **COMPANY?**

3    A.    On November 6, 2015, I announced my retirement as President, Chairman and  
4       CEO of Piedmont effective with the Merger closing.  Later, on December 10,  
5       2015 I was designated by Duke Energy's Board of Directors as the  
6       representative from Piedmont's board to be placed on Duke Energy's Board of  
7       Directors contemplated by the Merger Agreement effective after the close of the  
8       transaction.  In this new role, I hope to provide Duke Energy with the benefit of  
9       my business experience in the natural gas industry and utility regulation as Duke  
10      Energy increases its footprint in operating energy utilities subject to the  
11      regulation of state and federal regulatory bodies.

12   **Q.    FROM PIEDMONT'S PERSPECTIVE, WHAT OTHER APPROVALS**  
13       **ARE NECESSARY TO CLOSE THE PROPOSED MERGER?**

14   A.    We need approval from this Commission, of course, and were informed by the  
15      Tennessee Regulatory Authority that they would like for us to submit the Merger  
16      to them for approval as a change of control transaction so we are pursuing that  
17      authorization.  I understand that the Kentucky Public Service Commission has  
18      inquired as to the applicability of relevant Kentucky statutes to the transaction  
19      and that Duke Energy has made an appropriate filing with that Commission to  
20      address its concerns.  Additionally, on January 13, 2016, the Public Service  
21      Commission of South Carolina held an Allowable Ex Parte Briefing on the  
22      proposed Merger.  Finally, the transaction must be approved by Piedmont's

1           shareholders. A special meeting has been scheduled for January 22, 2016 for the  
2           purpose of taking a shareholder vote on the Merger.

3   **Q.   DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

4   A.   Yes, it does. But, in closing, I would like to say that it has been an honor and  
5           privilege to serve as Chairman, President and CEO of Piedmont Natural Gas and  
6           to serve the using and consuming public of natural gas consumers in North  
7           Carolina subject to this Commission's jurisdiction and oversight. I appreciate  
8           our many years of constructive partnership as we worked together to provide  
9           safe, reliable and affordable natural gas to our customers with the excellence in  
10          customer service they deserve. I am excited about and committed to the Merger  
11          transaction, will continue to run Piedmont Natural Gas in a business as usual  
12          mode until closing, and look forward to my new role on the Duke Energy board  
13          thereafter.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095

DOCKET NO. E-7, SUB 1100

DOCKET NO. G-9, SUB 682

In the Matter of

Application of Duke Energy Corporation  
and Piedmont Natural Gas Company, Inc. to  
Engage in a Business Combination  
Transaction and Address Regulatory  
Conditions and Code of Conduct

**TESTIMONY OF  
FRANK YOHO**

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1   **Q.   PLEASE STATE YOUR NAME AND YOUR BUSINESS ADDRESS.**

2   A.   My name is Frank Yoho. My business address is 4720 Piedmont Row  
3       Drive, Charlotte, North Carolina.

4   **Q.   BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

5   A.   I am currently employed by Piedmont Natural Gas Company, Inc.,  
6       ("Piedmont") as Senior Vice President and Chief Commercial Officer.

7   **Q.   PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
8       **BACKGROUND.**

9   A.   I have a Bachelor of Arts degree in economics from Washington &  
10       Jefferson College and a Masters of Business Administration degree from  
11       The Ohio State University. Prior to coming to work at Piedmont in 2002, I  
12       was Vice President for Business Development at CT Communications, a  
13       diversified telecommunications provider headquartered in Concord, North  
14       Carolina. Prior to that, I served as Senior Vice President for Marketing and  
15       Gas Supply for Public Service Company of North Carolina, Inc., a local  
16       natural gas distribution company ("LDC") headquartered in Gastonia, North  
17       Carolina.

18   **Q.   PLEASE DESCRIBE THE SCOPE OF YOUR PRESENT**  
19       **RESPONSIBILITIES FOR PIEDMONT.**

20   A.   I am the corporate officer responsible for Piedmont's commercial  
21       operations, which includes gas supply, transportation, sales, and marketing.  
22       I am also responsible for Piedmont's customer service functions, as well as  
23       federal energy regulatory matters.

1   **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**  
2       **COMMISSION OR ANY OTHER REGULATORY AUTHORITY?**

3   A. Yes, I have testified on numerous occasions before this Commission, the  
4       Public Service Commission of South Carolina, and the Tennessee  
5       Regulatory Authority.

6   **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
7       **PROCEEDING?**

8   A. The purpose of my testimony in this proceeding is to support the merger  
9       approval application ("Application") filed by Duke Energy Corporation  
10      ("Duke Energy") and Piedmont, and to provide the Commission with  
11      information regarding the ongoing post-merger operations planned for  
12      Piedmont and to support the Cost-Benefit Analysis filed with the merger  
13      Application.

14   **Q. COULD YOU PLEASE DESCRIBE YOUR POSITION WITH**  
15      **PIEDMONT AFTER THE MERGER CLOSES?**

16   A. Yes. As Piedmont witness Tom Skains indicated in his testimony, he will  
17      retire as Piedmont's Chairman, President, and Chief Executive Officer  
18      ("CEO") on the effective date of the Duke Energy and Piedmont merger  
19      ("Merger"), at which time I will assume responsibility for Piedmont's  
20      operations, as well as Duke Energy's gas LDC operations and the  
21      consolidated gas pipeline investments. In this role I will report directly to  
22      Lynn Good, Duke Energy's President and CEO, and will be responsible for  
23      the operations of Piedmont going forward.

1   **Q.   HOW   WILL   THE   MERGER   AFFECT   PIEDMONT’S**  
2       **OPERATIONS?**

3   A.   As has been indicated in prior public statements about the Merger, and as is  
4       reflected in the Merger documents themselves, the intent of the parties is  
5       that Piedmont will continue as a fully functional operating natural gas utility  
6       subsidiary of Duke Energy following closing. Piedmont will maintain its  
7       core management team and strong local presence to ensure the continued  
8       provision of safe, reliable and efficient natural gas service in and throughout  
9       the service areas in which we currently operate. For that reason, from a day-  
10      to-day operations perspective, the Merger will be seamless. The Merger  
11      will also be seamless from the perspective of our customers, as it will occur  
12      without any change to the terms or conditions applicable to the natural gas  
13      service we provide them or to the level of Piedmont’s focus on customer  
14      service.

15             Duke Energy has a team of highly qualified leaders, managers and  
16      employees, with many years of experience providing safe and reliable  
17      electric and gas service in the Carolinas and elsewhere. Likewise, Piedmont  
18      has over 60 years of experience providing natural gas service in the  
19      Carolinas and Tennessee, with leaders, managers, and employees who have  
20      broad and deep capabilities in a wide range of areas in the natural gas  
21      industry. I believe that one of the many strengths of this Merger is that  
22      Duke Energy’s history, perspective, and commitment to operational  
23      excellence ensures that it understands the critical importance of Piedmont’s

1 service obligations and ensures that safe and reliable natural gas service will  
2 continue to be provided. Therefore, in the most important of ways,  
3 Piedmont will not be impacted by the Merger – there will be no  
4 diminishment of Piedmont’s commitment to the safety of our employees,  
5 public safety around the natural gas assets we operate, reliability of the  
6 provision of natural gas service, and continued excellence in customer  
7 service.

8 **Q. HOW WILL THE MERGER AFFECT PIEDMONT’S CUSTOMERS?**

9 A. As I previously mentioned, the Merger will be seamless for our customers.  
10 We will continue to promote EASE with our customer service and field  
11 employees – we are Experts at what we do, we Appreciate our customers,  
12 Safety is our first priority, and we are Easy to do business with. This focus  
13 on customer service has already achieved positive results with our  
14 customers, as reflected in recent J.D. Power survey results and Cogent  
15 Reports utility brand rankings. We will not waver in that focus.  
16 Furthermore, the Merger will not cause an increase to customer rates  
17 because Piedmont will not be seeking rate relief for the Merger transaction  
18 costs. Overall, there will be no adverse rate or operational consequence to  
19 our customers as a result of this Merger.

20 **Q. WHAT CHANGES DO YOU PERCEIVE OCCURRING ONCE THE**  
21 **ACQUISITION IS CLOSED?**

22 A. As Duke Energy has stated, this Merger is not based on “synergies” but  
23 instead upon long-term strategic growth opportunities and an expansion of

1 its natural gas business. And while the intention is to leave Piedmont as a  
2 separate utility subsidiary of Duke Energy, we do anticipate some  
3 consolidation of functions to result from the Merger in areas where Duke  
4 Energy and Piedmont have overlapping or redundant capabilities. This  
5 consolidation of functions will primarily occur at the corporate or  
6 supporting services level and not in areas involving the operation of our core  
7 natural gas facilities or services. Duke Energy and Piedmont are currently  
8 engaged in a joint integration planning process to identify where and how  
9 the business operations of the two companies can be efficiently consolidated  
10 following closing. Some of the anticipated savings associated with these  
11 integration efforts are reflected in the Cost-Benefit Analysis filed with the  
12 Application in this docket.

13 **Q. HOW WILL THE MERGER IMPACT PIEDMONT'S PROVISION**  
14 **OF UTILITY SERVICES IN NORTH CAROLINA AND THE**  
15 **COMMISSION'S JURISDICTION OVER THOSE SERVICES?**

16 A. We anticipate positive impacts from the Merger for our customers.  
17 Piedmont customers will benefit from the adoption of best practices that will  
18 be determined during the ongoing integration planning process. In short,  
19 after the Merger, Piedmont will continue to provide safe and reliable natural  
20 gas service to the public with the same high level of customer service and  
21 operational excellence that we currently provide. This service will also  
22 continue to be fully regulated by this Commission and the other state public  
23 service commissions under whose jurisdiction we operate.

1   **Q.   COULD YOU PLEASE DISCUSS YOUR PERCEPTION OF THE**  
2       **COSTS AND BENEFITS OF THIS PROPOSED TRANSACTION AS**  
3       **REFLECTED IN THE COST-BENEFIT ANALYSIS FILED WITH**  
4       **THE APPLICATION IN THIS DOCKET?**

5   A.   Yes.   The Cost-Benefit Analysis filed with the Application in this  
6       proceeding is an effort to identify both costs and savings associated with the  
7       proposed Merger. This document was prepared by a number of employees  
8       of both Duke Energy and Piedmont and represents our collective best-  
9       thinking about the impacts of the Merger on costs and operations of the two  
10      companies. As is evident from the Analysis, some of the costs and benefits  
11      are more quantifiable than others but all represent impacts expected to result  
12      from the Merger.

13   **Q.   DO YOU AGREE WITH THE COSTS AND BENEFITS IDENTIFIED**  
14      **IN THE ANALYSIS?**

15   A.   Yes, although I would also point out that we expect further benefits to be  
16      identified (and quantified) through the Merger integration process that is  
17      currently ongoing. Customers will realize the additional cost savings  
18      benefits in future rate proceedings.

19   **Q.   DO YOU BELIEVE THAT THE MERGER WILL PROVIDE NET**  
20      **BENEFITS TO CUSTOMERS?**

21   A.   Yes.   As is indicated in the Cost-Benefit Analysis, Duke Energy and  
22      Piedmont currently anticipate that the Merger will result in savings of  
23      approximately \$9.45 million annually in the costs of operating Piedmont.

1        These savings are largely ongoing in nature and will be passed through to  
2        Piedmont's customers pursuant to future general rate proceedings,  
3        effectively reducing the revenue requirement in the next general rate case.  
4        In addition to these direct economic costs savings, the Cost-Benefit Analysis  
5        also identifies a number of more qualitative benefits that will accrue to the  
6        Company and its customers as a result of the Merger.

7        **Q. WILL CUSTOMERS BEAR SIGNIFICANT COSTS OR OTHER**  
8        **DETRIMENTS ASSOCIATED WITH THE MERGER?**

9        A. No. There are, of course, immediate transactional costs associated with the  
10       Merger, which are identified in the Cost-Benefit Analysis. These costs will  
11       not be borne by Duke Energy or Piedmont customers because we will not be  
12       seeking rate relief for these costs. Instead, they will be paid by Duke  
13       Energy shareholders and thus will have no detrimental impacts on either  
14       company's customers. Additionally, integration consultant costs of \$4.75  
15       million are identified in the Cost-Benefit Analysis. We reserve the right to  
16       seek to recover integration costs from customers in future rate proceedings  
17       to the extent such costs result in net benefits.

18       **Q. DO YOU HAVE ANYTHING ELSE TO ADD TO YOUR**  
19       **TESTIMONY?**

20       A. I would only add that I have been proud of the performance and  
21       accomplishment of Piedmont since the time I came to work at this company,  
22       and that I am excited about Piedmont's future under the new ownership of  
23       Duke Energy as a part of that family of corporate energy companies.

1   **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT**  
2       **TESTIMONY?**

3   **A. Yes, it does.**



BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095

DOCKET NO. E-7, SUB 1100

DOCKET NO. G-9, SUB 682

In the Matter of )  
 )  
Application of Duke Energy )  
Corporation and Piedmont Natural )  
Gas, Inc. to Engage in a Business )  
Combination Transaction and )  
Address Regulatory Conditions and )  
Codes of Conduct )

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**TESTIMONY OF  
STEVEN K. YOUNG**

1   **Q.   PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND**  
2       **POSITION WITH DUKE ENERGY CORPORATION.**

3   A.   My name is Steven K. Young. My business address is 550 South Tryon  
4       Street, Charlotte, North Carolina 28202. I am the Executive Vice President  
5       and Chief Financial Officer of Duke Energy Corporation (“Duke Energy” or  
6       the “Company”), the parent of Duke Energy Carolinas, LLC (“DEC”) and  
7       Duke Energy Progress, LLC (“DEP”).

8   **Q.   PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**  
9       **QUALIFICATIONS.**

10  A.   I have a Bachelor of Science Degree in Business Administration from the  
11       University of North Carolina at Chapel Hill. I completed the Advanced  
12       Management Program at the Wharton School of Business. I am a Certified  
13       Public Accountant (“CPA”) and Certified Management Accountant in the  
14       state of North Carolina. I am a member of the American Institute of Certified  
15       Public Accountants, Institute of Management Accountants, and National  
16       Association of Accountants. I am also a member of the Edison Electric  
17       Institute Accounting Executive Advisory Committee, and the Southeastern  
18       Electric Exchange Accounting and Finance Section.

19  **Q.   PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

20  A.   My professional work experience began in 1980 when I joined Duke Power as  
21       a financial assistant. After a series of promotions within the controller's  
22       department, I was named manager of bulk power agreements in system  
23       planning and operations in 1991, and manager of the rate department in 1993.

1 In April 1998, I was appointed as Vice President of Rates and Regulatory  
2 Affairs, with responsibility for Duke Power's regulatory strategies and policies  
3 in rate, financial and accounting matters. I was also accountable for the  
4 Company's interaction with the utility commissions of North Carolina and  
5 South Carolina, and the Federal Energy Regulatory Commission. I was named  
6 Senior Vice President and Chief Financial Officer for Duke Power in  
7 February 2003, Group Vice President and Chief Financial Officer in March  
8 2004, and Vice President and Controller in June 2005. In December 2006, I  
9 was named Senior Vice President and Controller for Duke Energy. In  
10 addition to maintaining that role at the close of the merger between Duke  
11 Energy and Progress Energy, Inc. in July 2012, I also became the Company's  
12 Chief Accounting Officer. I was named to my current position in August  
13 2013.

14 **Q. PLEASE DESCRIBE YOUR DUTIES AS DUKE ENERGY**  
15 **CORPORATION'S CHIEF FINANCIAL OFFICER.**

16 A. As Chief Financial Officer, I lead the finance function of Duke Energy and its  
17 operating subsidiaries, including DEC and DEP. In this capacity, I am  
18 responsible for the controller's office, treasury, tax, risk management,  
19 insurance, investor relations, corporate strategy and development, and  
20 corporate audit services departments. These duties include accounting, cash  
21 management and overseeing risk control policies.

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to describe the financial strength, credit  
2 quality, and liquidity of Duke Energy and Piedmont Natural Gas, Inc.  
3 (“Piedmont”) as stand-alone, unaffiliated legal entities. I will then discuss the  
4 positive impact that the merger between Duke Energy and Piedmont  
5 (“Transaction” or “Merger”), if approved, will have on these financial aspects  
6 for the combined company, and I will highlight the benefits of the improved  
7 financial position to both customers and investors. Finally, I will describe the  
8 financial terms of the Merger and explain the financing that Duke Energy is  
9 undertaking in connection with this transaction.

10 **Q. PLEASE EXPLAIN THE TERMS CREDIT QUALITY AND CREDIT**  
11 **RATINGS.**

12 A. Credit quality (or creditworthiness) is a term used to describe a company’s  
13 overall financial health and its willingness and ability to repay all financial  
14 obligations in full and on time. Assessments of creditworthiness are  
15 performed by independent credit rating agencies, and result in the company’s  
16 credit rating and outlook.

17 Many qualitative and quantitative factors go into this assessment. For  
18 regulated utilities, qualitative aspects may include the constructiveness of the  
19 regulatory jurisdiction and the effectiveness of cost recovery mechanisms.  
20 Other qualitative factors include a company’s track record for delivering on its  
21 commitments, the strength of its management team, its operating performance  
22 and various characteristics of its service area. Quantitative measures

1 generally focus on the relationship of cash flow to total indebtedness and cash  
2 flow to fixed obligations such as principal and interest payments.

3 **Q. WHAT ARE THE CURRENT CREDIT RATINGS OF PIEDMONT,**  
4 **DUKE ENERGY, DUKE ENERGY CAROLINAS AND DUKE**  
5 **ENERGY PROGRESS?**

6 A. As of January 15, 2016, the long-term credit ratings of Piedmont, Duke  
7 Energy, DEC and DEP are:

Entity	Corp Credit Rating (Moody's / S&P)	Sr. Unsecured Rating (Moody's / S&P)	Sr. Secured Rating (Moody's / S&P)	Outlook (Moody's / S&P)
Piedmont	A2/A	A2/A	Not Applicable	Stable/Watch Negative
Duke Energy Corporation	Baa1/A-	Baa1/BBB+	Not Applicable	Negative/Negative
Duke Energy Carolinas	A1/A-	A1/A-	Aa2/A	Stable / Negative
Duke Energy Progress	A2/A-	Not Applicable	Aa3/A	Stable/ Negative

8

9 **Q. PLEASE DESCRIBE THE SIGNIFICANCE OF THESE RATINGS ON**  
10 **PIEDMONT AND DUKE ENERGY AS STAND-ALONE COMPANIES.**

11 A. The ratings I just described are solid investment grade credit ratings and  
12 indicate that each company is in strong financial condition and is expected to  
13 have the ability to meet debt obligations on time and in full. Duke Energy and  
14 Piedmont operate in regulatory jurisdictions that are all considered by the  
15 rating agencies to support credit quality (North Carolina, South Carolina,  
16 Indiana, Ohio, Kentucky, Florida, and Tennessee). Each of these seven  
17 jurisdictions is rated "Average" or "Above Average" by Regulatory Research

1 Associates. Duke Energy generates approximately 90% of its annual earnings  
2 from regulated operations, and Piedmont generates approximately 92% of its  
3 annual earnings from regulated operations.

4 Duke Energy's liquidity is also considered to be adequate by the rating  
5 agencies. The Company maintains a \$7.5 billion Master Credit Facility with  
6 commitments from approximately 30 banks. Total availability under these  
7 facilities is approximately \$3.7 billion as of December 31, 2015, and the  
8 Company had available cash of \$248 million.

9 Taken together, Duke Energy's healthy balance sheet, highly-regulated  
10 business mix, and significant liquidity supports its investment grade credit  
11 ratings. Maintaining investment grade ratings has been and will continue to  
12 be a core financial objective for Duke Energy because doing so improves the  
13 Company's access to capital on reasonable terms through various market  
14 conditions. Customers benefit from the Company's ability to access the  
15 market when needed to fund infrastructure investments and to refinance  
16 existing indebtedness. In addition, high quality credit ratings lower borrowing  
17 costs, also to the benefit of customers.

18 Piedmont also has adequate liquidity, with a revolving credit facility  
19 comprising \$850 million in commitments from seven banks. As of December  
20 31, 2015, Piedmont had \$370 million available under these credit facilities,  
21 and approximately \$34 million in cash.

1    **Q.    WHAT IS MEANT BY S&P'S OUTLOOK OF "CREDITWATCH**  
2           **WITH NEGATIVE IMPLICATIONS" AND MOODY'S "STABLE"**  
3           **OUTLOOK FOR PIEDMONT?**

4    A.    S&P's CreditWatch is an opinion of the potential direction in the rating and  
5           generally focuses on specific events and short-term trends. Subsequent to the  
6           October 26, 2015 announcement of the acquisition, S&P affirmed Piedmont's  
7           "A" senior unsecured credit rating, but placed it on credit watch with negative  
8           implications. In this case, the negative watch indicates the potential for a  
9           lower credit rating upon the close of the Transaction. It is important to note  
10          that S&P's action is due to its use of a group rating methodology, where all  
11          core subsidiaries of a parent company receive the same corporate credit rating  
12          as the parent. It is common for S&P to take such action following an  
13          acquisition even though the credit profile of the surviving subsidiary has not  
14          materially changed. Because Duke Energy's current corporate credit rating of  
15          "A-" is one notch lower than Piedmont's corporate credit rating of "A," S&P  
16          may reduce Piedmont's rating to align with that of Duke Energy.

17                 Moody's currently has Piedmont on stable outlook. An outlook from  
18                 Moody's generally indicates the direction of a rating over the medium term.  
19                 Moody's analyst Jairo Chung stated in the Moody's rating action dated  
20                 October 27, 2015, "Although Piedmont is a high quality utility with a strong  
21                 credit profile on a stand-alone basis, we believe it could benefit from being a  
22                 part of a larger company over the long run." Chung also stated, "Our  
23                 expectation is that Piedmont will continue to execute its large capital

1 investment program and that this announced transaction will have minimal  
2 impact on Piedmont's fundamental credit profile."

3 **Q. WHAT STRENGTHS AND RISKS HAVE BEEN IDENTIFIED BY**  
4 **EQUITY ANALYSTS OR CREDIT RATING AGENCIES**  
5 **REGARDING REGULATED UTILITIES SUCH AS DUKE ENERGY**  
6 **AND PIEDMONT?**

7 A. Equity analysts generally consider regulated utilities, such as Duke Energy  
8 and Piedmont, to be in an investment category that provides stable, long-term  
9 earnings and cash flows, which support attractive dividend policies and  
10 earnings. The major risk factors faced by regulated utilities include regulatory  
11 risk, environmental regulations, load growth, distributed generation, and  
12 timely cost recovery mechanisms. Additionally, there are significant financial  
13 risks associated with industries where large capital investments are needed to  
14 fund infrastructure projects.

15 Based upon their public reports and statements made to us over time,  
16 the credit rating agencies believe Duke Energy and Piedmont operate in  
17 generally supportive regulatory environments that will support long-term  
18 credit quality with timely and sufficient recovery of prudently incurred costs  
19 and expenses. Nonetheless, in their discussions and reviews of the industry,  
20 the credit rating agencies recognize the unique challenges of managing large  
21 capital expenditure programs and the prospect of more stringent safety and  
22 environmental mandates among the issues that could affect the credit quality  
23 of regulated utilities like Duke Energy and Piedmont.



1           Given that Duke Energy and Piedmont both operate as regulated  
2           utilities in similar service territories, the combination of these two companies  
3           is not expected to introduce any new risks to the equity and credit analysts  
4           who follow our companies. In fact, we believe the proposed Transaction  
5           positions the combined company to better leverage the strengths of our  
6           businesses and more effectively manage the risks associated with managing  
7           regulated utility operations.

8   **Q. PLEASE DESCRIBE THE FINANCIAL STRENGTH, CREDIT**  
9   **QUALITY AND LIQUIDITY OF THE COMBINED COMPANY IF**  
10 **THE PROPOSED TRANSACTION IS APPROVED.**

11 A. Upon closing of the proposed Transaction, Duke Energy will maintain a  
12 healthy balance sheet with strong investment grade ratings and more than 90%  
13 of its annual earnings and cash flow coming from regulated operations. Duke  
14 Energy will continue to be the largest electric utility holding company in the  
15 United States, and will also become the 15<sup>th</sup> largest natural gas local  
16 distribution company ("LDC"). The proposed Transaction is consistent with  
17 Duke Energy's belief that utilities with operations in both regulated electric  
18 and gas delivery can improve the overall customer experience through  
19 economies of scale, diversification, and operational excellence. This is  
20 expected to result in improved financial strength, greater liquidity, and  
21 optimal operating flexibility, all of which will position the combined company  
22 to operate more effective as our industry continues to evolve.

1     **Q.   HOW   WILL   THE   PROPOSED   TRANSACTION   IMPACT**  
2           **PIEDMONT'S ABILITY TO ACCESS THE CAPITAL MARKETS?**

3     A.   As a core subsidiary of Duke Energy, Piedmont will have greater access to  
4           capital at potentially better terms and conditions than if it remained a  
5           standalone company due to the following advantages provided by Duke  
6           Energy:

7           Expanded Investor Base

8           Duke Energy is the most active utility issuer in the capital markets  
9           with a substantial following of equity and debt investors. As a less frequent  
10          issuer, Piedmont has a smaller investor following, which can result in lower  
11          investor appetite and less competitive deal terms. New issue spreads (or  
12          borrowing rates above a benchmark index such as a 10-year Treasury rate) for  
13          smaller, less frequent issuers are typically higher than those of larger, more  
14          recognized names. To put this in context, Piedmont currently has  
15          approximately \$1.6 billion of long-term debt and plans to issue another \$1.0  
16          billion of debt in the next five years. A 10 basis point reduction in borrowing  
17          costs results in \$1.0 million of annual interest expense savings for every \$1.0  
18          billion of long-term debt issued.

19          Improved Financing Flexibility

20          As a core subsidiary of Duke Energy, Piedmont will have better  
21          control over the timing and sizing of its capital markets transactions, which  
22          can lead to improved deal terms. For example, investor demand is typically  
23          stronger for bond offerings of \$250 million or larger. Transaction sizes lower

1 than this threshold typically involve a pricing premium as compared to larger,  
2 comparably-rated transactions. This was evidenced by Piedmont's \$150  
3 million senior unsecured offering in September 2015, which involved a new  
4 issue spread of approximately 137.5 basis points as compared to the roughly  
5 100 basis point peer average for comparably-rated senior unsecured utility  
6 issuers in 2015. Smaller deal sizes can also result in more restrictive financial  
7 and operating covenants as has been the case in some of Piedmont's privately-  
8 placed senior notes under note purchase agreements in tranche sizes ranging  
9 from \$35 million to \$200 million.

10 Access to Duke Energy's Cost-Advantaged Money Pool

11 As a Duke Energy subsidiary, Piedmont could become a participant in  
12 Duke Energy's utility money pool agreement. This would provide Piedmont  
13 with access to competitively-priced capital, especially in addressing shorter-  
14 term capital needs. It also has the added benefit of optimizing the timing and  
15 sizing capital market transactions, which can lead to more favorable terms.

16 Improved Access to Capital Markets During Periods of Volatility

17 Piedmont will benefit from improved access to capital, especially in  
18 challenging or volatile market conditions when debt investors tend to favor  
19 larger entities that are more active in the capital markets, and have more  
20 liquidity and strong investment grade credit ratings. In the past 10 years, the  
21 capital markets have experienced numerous periods of volatility where  
22 smaller issuers have been disadvantaged relative to larger issuers with a  
23 greater investor base.

1   **Q.   PLEASE EXPLAIN THE IMPACT OF THE PROPOSED MERGER**  
2           **ON THE COMBINED COMPANY'S FINANCIAL STRENGTH AND**  
3           **ACCESS TO THE CAPITAL MARKETS.**

4   A.   The combined company will have more geographic and regulatory diversity,  
5           greater natural gas operations to compliment Duke Energy's existing electric  
6           business, and a larger portion of the business associated with regulated  
7           operations. This results in more stable cash flows and increased liquidity,  
8           which appeal to debt investors.

9           The Merger will help solidify the combined company's long-term  
10          earnings growth objectives. Piedmont's dividend policy is generally  
11          consistent with that of Duke Energy's, and its regulated cash flows will  
12          continue to support the Duke Energy dividend policy. This supports an  
13          attractive total shareholder return proposition for equity investors, thereby  
14          preserving reliable access to equity capital.

15   **Q.   IN BROAD TERMS, PLEASE DESCRIBE THE MERGER**  
16           **TRANSACTION.**

17   A.   Duke Energy is acquiring Piedmont for approximately \$4.9 billion in cash and  
18          assumption of approximately \$1.8 billion in Piedmont existing net debt.  
19          Under the terms of the Agreement and Plan of Merger, each share of  
20          Piedmont's common stock will be converted into the right to receive \$60.00 in  
21          cash, without interest and less any applicable withholding taxes.

22   **Q.   HOW DOES DUKE ENERGY INTEND TO FINANCE THE**  
23           **TRANSACTION?**

1 A. As discussed in the Application and further detailed in our request for  
2 expedited approval of financings related to the Piedmont transaction, Duke  
3 Energy intends to finance this transaction through a combination of equity  
4 (which may include the issuance of common stock, equity-linked securities  
5 and/or through the company's dividend reinvestment program), long-term  
6 debt and other potential sources of cash. The size of a common stock equity  
7 offering is currently estimated to range between \$500 million and \$750  
8 million.

9 With respect to the debt financing, Duke Energy intends to issue long-  
10 term bonds at the holding company across a range of maturities. The final  
11 structure of the maturities will be dependent on the ultimate amount of debt  
12 financing and market conditions at the time of issuance. The Company plans  
13 to issue up to \$4.5 billion in long-term senior notes of Duke Energy in one or  
14 more underwritten public offerings during 2016. The amount to be raised  
15 through either the equity or debt capital markets may be reduced to the extent  
16 Duke Energy has other significant sources of cash available.

17 **Q. I SHOW YOU WHAT HAS BEEN MARKED AS EXHIBIT B, THE**  
18 **COST/BENEFIT ANALYSIS FILED WITH THE APPLICATION. DO**  
19 **YOU SPONSOR THIS EXHIBIT?**

20 A. Yes. My testimony has discussed the financial and risk benefits contained in  
21 the Cost-Benefit analysis, and I am supporting that portion of the exhibit. Mr.  
22 Frank Yoho is sponsoring the Piedmont-specific sections of the exhibit.

23

1    **Q.     DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

2    **A.     Yes.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095

DOCKET NO. E-7, SUB 1100

DOCKET NO. G-9, SUB 682

In the Matter of )  
)  
Application of Duke Energy Corporation )  
and Piedmont Natural Gas Company, Inc. to )  
Engage in a Business Combination )  
Transaction and Address Regulatory )  
Conditions and Code of Conduct )

TESTIMONY OF  
JAMES D. REITZES

1   **I. QUALIFICATIONS AND PURPOSE**

2   **Q.   PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**  
3       **ADDRESS.**

4   A.   My name is James D. Reitzes. I am a Principal of The Brattle Group, an  
5       economic and management consulting firm with offices in Cambridge, MA;  
6       Washington, District of Columbia; San Francisco, California; New York; New  
7       York, London, England; Rome, Italy; Madrid, Spain; and Toronto, Canada.  
8       My business address is 1850 M Street NW, Washington, District of Columbia.

9   **Q.   PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**  
10       **EXPERIENCE.**

11 A.   I received a Bachelor of Arts in economics and history from Stanford  
12       University and a Doctor of Philosophy in Economics from the University of  
13       Wisconsin-Madison. My areas of specialization within economics are  
14       industrial organization, which includes the examination of firm behavior  
15       under various market conditions, and international trade. I also have  
16       completed field courses in finance. I have been involved in competition and  
17       regulatory matters for more than twenty-five years, including five years at the  
18       Federal Trade Commission and more than twenty years in private consulting  
19       practice. My consulting practice is focused on antitrust and competition in the  
20       energy and transportation sectors.

21 **Q.   HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**  
22       **COMMISSION?**



1     A.     No, I have not testified before this Commission. However, I have previously  
2            testified before the Federal Energy Regulatory Commission (“FERC”) on  
3            various competitive issues, including the price impacts associated with  
4            mergers and acquisitions, and the effectiveness of market power mitigation  
5            protocols used in RTO markets. In addition, on several occasions, I have  
6            provided testimony or reports to state public utility commissions that analyze  
7            whether energy, renewable energy credits, or electric generating assets were  
8            purchased or sold at the best possible price. On several occasions, I have been  
9            involved in the design of procurement/auction processes to supply generation  
10           for utility default service obligations (also known as standard-offer service  
11           (“SOS”). A more complete description of my qualifications is attached as  
12           Reitzes Exhibit **JDR-1**.

13    **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14    A.     I have been asked by Duke Energy Corporation (“Duke”) and Piedmont  
15            Natural Gas, Inc. (“Piedmont”), together “Applicant,” to analyze whether the  
16            proposed merger of Duke and Piedmont (hereafter, Transaction) has any  
17            potential adverse competitive impacts on wholesale and retail electricity and  
18            natural gas markets in North Carolina. The potential impact would result  
19            from the addition of Piedmont to DEC (“DEC”), and DEP (“DEP”) as Duke’s  
20            utility affiliates in the Carolinas. Applicant requested the market power  
21            analysis as required by this Commission’s Order Requiring Filing Analyses  
22            issued on November 2, 2000, in Docket No. M-100, sub 129. In that Order,  
23            this Commission required that any party seeking to engage in a business

1 combination within the electric or natural gas industries should file a market  
2 power analysis on the same date that the application is filed.

3 **II. DESCRIPTION OF ANALYSIS AND TRANSACTION**

4 **Q. HAVE YOU PREPARED A MARKET POWER ANALYSIS AS**  
5 **REQUESTED?**

6 A. Yes. I prepared a market power analysis, which was filed in this matter as  
7 Exhibit B to the Application, and I am sponsoring that exhibit.

8 **Q. PLEASE DESCRIBE THE TRANSACTION AND BRIEFLY**  
9 **SUMMARIZE YOUR ANALYSIS.**

10 A. The Transaction involves the purchase of a natural gas distribution company  
11 with a service territory in North Carolina (*i.e.*, Piedmont) by Duke Energy,  
12 which operates two regulated electric utilities (DEC and DEP) with service  
13 territories in North Carolina. My analysis of competitive impact focuses on  
14 the limited areas of overlap, including: (i) "inter-fuel" competition between  
15 gas and electricity as alternative sources of energy; (ii) ownership of gas  
16 transmission rights by each of the merging parties and any potential effect of  
17 the Transaction on the price of released gas transport capacity and/or  
18 delivered gas in North Carolina; and (iii) the potential effects of the  
19 Transaction on third-party generation.

20 **Q. WHAT ARE YOUR FINDINGS?**

21 A. I find that the Transaction will not adversely affect competition, and will not  
22 create an increased ability to exercise market power.

1 In particular, current regulations sufficiently constrain retail electric and gas  
2 pricing, such that the Transaction will not adversely affect electric-gas retail  
3 competition. Moreover, my analysis shows that the Transaction will not  
4 diminish Piedmont's incentive to develop gas infrastructure, nor will it reduce  
5 Duke's incentive to develop electric infrastructure. I also find that the  
6 economic conditions in the electric and gas markets, as well as regulatory  
7 provisions currently in place, are such that the Transaction will increase  
8 neither the incentive nor the ability of Duke or Piedmont to raise delivered gas  
9 prices or withhold gas transmission capacity or gas transport services.  
10 Lastly, there are no "vertical" market power concerns that the Transaction will  
11 directly disadvantage independent power producers ("IPPs") who serve  
12 wholesale electric customers in competition with Duke.

13 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

14 **A.** Yes, it does.